The Granby Mining Company Limited

1974 ANNUAL REPORT

75th ANNIVERSARY

Index

Cover Photo:
Secondary Stockpile – Phoenix Mine

Directors

J. H. Colton
T. G. Ewart
W. H. Flynn
A. H. Hauser
W. F. James
J. W. Jewitt
R. C. Lassiter
G. T. Smith
R. M. Sutherland, Q.C.
R. P. Taylor

Officers

W. H. Flynn	Chairman of the Board
J. W. Jewitt	President
R. P. Taylor	Executive Vice President
J. H. Colton	Vice President, Administration and Finance, and Secretary
R. B. Richards	Treasurer
J. D. Balden	Assistant Treasurer
E. A. Bence	Assistant Secretary

Mine Managers

G. B. Hardwicke	Phoenix Copper Division
E. M. Berthelsen	Granisle Copper Limited

Transfer Agents

The Canada Trust Company,
Vancouver, British Columbia.

The Canada Trust Company,
Toronto, Ontario.

Chemical Bank, New York, N.Y.

Registrars

National Trust Company, Limited,
Vancouver, British Columbia.

National Trust Company, Limited,
Toronto, Ontario.

The Chase Manhattan Bank, N.A.,
New York, N.Y.

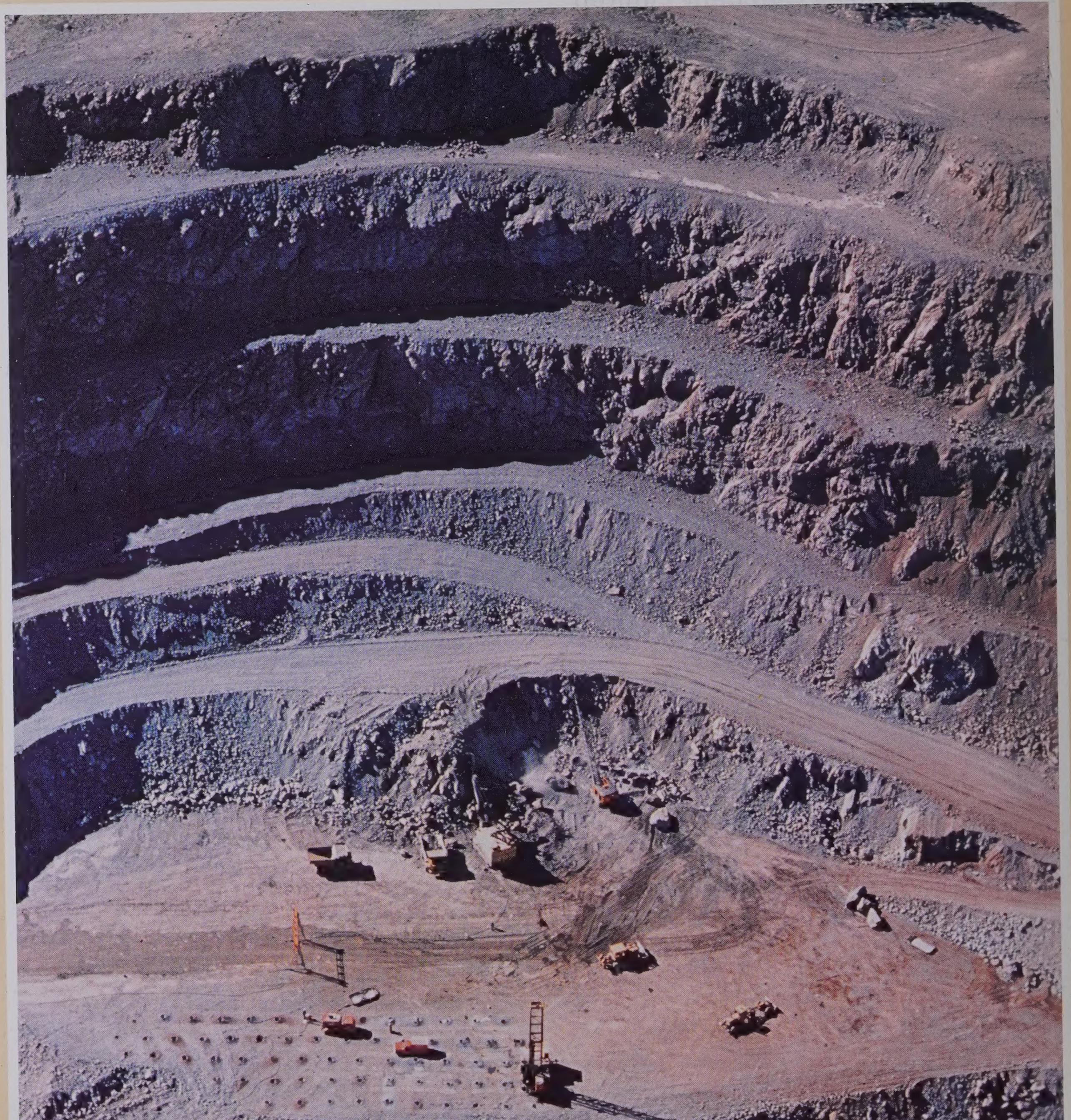
Shares Listed

Pacific Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

Subsidiary Companies

Active: Granisle Copper Limited
Granex (Proprietary) Limited
Zapata Mining (Proprietary) Limited

Inactive: Granby Metals Corporation Limited
Jedway Iron Ore Limited
Phoenix Copper Company, Limited (N.P.L.)



The Phoenix pit.

To the Shareholders:

J.W. Jewitt
President

Granby this year is celebrating its 75th Anniversary. Since its inception, this historic British Columbia company developed mines at Phoenix, Cassidy, Copper Mountain, Jedway and Granisle, and copper smelters at Grand Forks and Anyox — places which played a significant role in shaping the growth of the Province of British Columbia. In the process, Granby pioneered open pit mining methods, designed mining equipment copied around the world, and produced over 1.9 billion pounds of copper for international industrial use.

The Company prospered when copper prices rose, struggled when prices fell or reserves ran low but, thanks to enterprising shareholders and able employees, can look back with pride upon a distinguished record of success and achievement. The beneficiaries were those same shareholders who risked their capital, the thousands of employees over the years who contributed their skills, effort and enthusiasm, and the Province of British Columbia. From this historic foundation, Granby continues to build on the strength of its managerial talents and sound financial structure, seeking opportunities for growth and diversification within the mining field throughout the world.

Your attention is drawn to the enclosed supplement which was published in commemoration of the Company's 75th Anniversary.

FINANCIAL

In fiscal 1974, your Company again improved its financial performance over that of the preceding year. The gains are attributable mainly to increased production stemming from greater operating efficiency at the Granisle mine, and to higher average prices for copper, gold and silver. These results were achieved in the face of ever increasing costs of labour, supplies and other services.

Consolidated net income for the year ended September 30, 1974, was $7,670,478, or $5.31 per share, compared with $5,514,723 (restated) or $3.82 per share, for the previous 12-month period. Total value of production of copper, gold and silver from the Granisle and Phoenix mines was $40,362,305 for fiscal 1974, compared with $29,765,169 for 1973. The average copper price received in 1974 was 89.3¢ per pound, compared with 73.1¢ in 1973.

Capital expenditures during the year totalled $3,799,336 and dispositions amounted to $686,524. The major expenditure during the year was $1,800,000 for the replacement of 50-ton haulage trucks by six 100-ton Unit Rig trucks at the Granisle mine. Other significant expenditures at Granisle were improvements to the tailings impoundment area, and new housing facilities for employees, which were subsequently sold to them. Projected capital expenditures for 1975 are approximately $1,600,000, and include new repair shop and warehouse facilities at Granisle, and improved concentrate transportation facilities for Granisle.

Legislation enacted by the Government of British Columbia under the "Mineral Land Tax Act" introduced a further cost factor into our operations. The estimated tax for the period January 1, 1974, the effective date of the legislation, to September 30, 1974, is $879,573 and has been included as a Cost of Production in the Consolidated Statement of Income.

The tax consists of two parts:

(a) A tax of 2½% in 1974, and 5% in succeeding years, on "net smelter returns" less transportation charges. The term "net smelter returns" essentially means gross prices received less refining and treatment charges;

and

(b) A tax of 50% of the difference between the value of "net smelter returns" and certain values as established by the Government of British Columbia. The Government has set the basic values for 1974 at 58¢ per pound for copper, $82.50 per ounce for gold and $3.00 per ounce for silver, and the 50% tax applies when "net smelter returns" exceed 120% of these prices.

Precise methods of calculation are as yet unavailable, therefore the tax shown in the financial statements is an estimate only, based on the best information obtainable.

The mining industry of British Columbia regards this tax as punitive and expropriatory in nature, and is continuing to try to impress upon the Government that it will have a damaging effect on mining exploration and development in British Columbia and on current operations of mining companies.

On November 18, 1974, the Canadian Government introduced a Budget, some of the provisions of which will affect adversely the Company's liability for tax. One of these provisions is the disallowance of Provincial mineral land taxes in the calculation of our Federal income taxes; further information is contained in Note 6 to the Financial Statements.

SUMMARY OF OPERATIONS

Granisle Mine Production

	Year Ended September 30	
	1974	1973
Tons Ore Treated	**4,853,434**	4,188,483
Average Tons Treated Per Day	**13,297**	11,475
Copper Content (%)	**.46**	.46
Tons Waste Removed	**6,936,689**	6,573,824
Stripping Ratio	**1:1.41**	1:1.54
Unit Cost of Production — Per Ton Milled	**$2.74**	$2.61
Saleable Metal Produced:		
Copper (lbs.)	**38,697,527**	33,408,509
Gold (ounces)	**18,369**	16,546
Silver (ounces)	**191,958**	166,154

Granisle

The 16% increase in the quantity of ore treated is a measure of the improved performance of the Granisle plant subsequent to the running-in period. Similarly, the pounds of saleable copper produced increased 16% over the previous 12 months. The average copper content of the ore milled during 1974 was 0.46%, the same as for 1973.

The unit cost of production increased by 5% to $2.74 per ton milled; this increase is attributable to higher concentrate freight costs. The impact of increased cost of labour and materials has been offset on a unit cost basis by the increased rate of production.

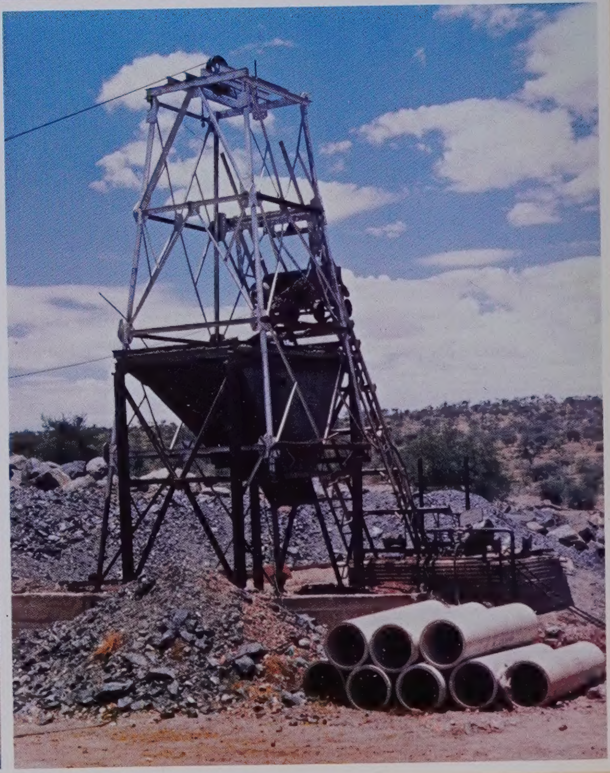
Studies are in hand to improve further the capacity of the Granisle plant, which may involve additional capital expenditure in 1976.

The ore reserves at Granisle were calculated to be 73,281,000 tons at year end, with an average copper content of 0.43% mineable at an ore to waste ratio of 1 to 1.1. In addition, there is a stockpile of 2,174,000 tons of low grade material with an average copper content of 0.29%.

The Granisle mine.

Stripping at Phoenix.

4OR drill, 9" drill hole in foreground.



Onganja head frame.

Phoenix Mine Production

	Year Ended September 30	
	1974	1973
Tons Ore Treated	**995,751**	994,136
Average Tons Treated Per Day	**2,728**	2,724
Copper Content (%)	**.44**	.56
Tons Waste Removed	**2,807,268**	2,871,367
Stripping Ratio	**1:21.09**	1:6.55
Unit Cost of Production — Per Ton Milled	**$4.12**	$3.53
Saleable Metal Produced:		
Copper (lbs.)	**7,080,248**	9,163,826
Gold (ounces)	**10,003**	17,020
Silver (ounces)	**70,732**	87,553

Phoenix

In 1974 only 13% of the ore treated at Phoenix was mined from the Ironsides pit. The balance was rehandled from the low grade stock-pile causing screening and crushing problems during low temperature conditions. Installation of a new ball mill in March enabled the concentrator to maintain its production rate. The pounds of saleable copper produced declined 23% from the previous period due to a reduction in the average copper content of ore milled from 0.56% to 0.44%.

Stripping of the upper levels of the South Extension to expose ore for future production resulted in a much higher stripping ratio in 1974.

The unit cost of Phoenix production increased 17% to $4.12 per ton milled as a direct result of the increased cost of labour and materials.

The ore reserves at Phoenix were 1,111,000 tons at year end, with an average copper content of 0.80% mineable at an ore to waste ratio of 1:3.03. In addition there is an ore stockpile of 3,072,000 tons with an average copper content of 0.40%.

Onganja

In November, 1973, Granby acquired the small underground Onganja copper mining operation in South West Africa from Zapata Corporation, at its book value, for $100,000 and Granby's $316,000 note payable out of profits of the South West African operation.

Subsequent to the purchase of the Onganja Mine, substantial efforts were made to put the mine onto a profitable basis. By year end one year's underground supply of ore had been developed at a grade of 1.6% copper.

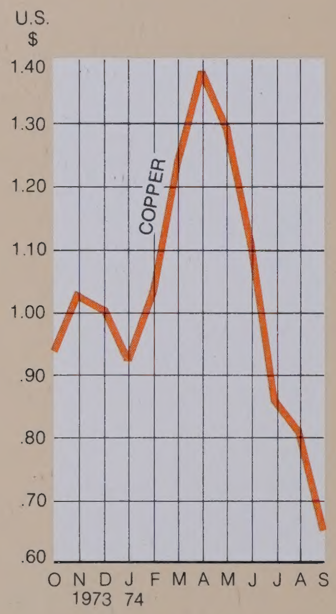
The major factor affecting Onganja at the year end was the falling price of copper. The breakeven price of copper for the Onganja operation is approximately 70 cents per pound. As current copper prices are below this figure, Onganja is being placed on a care and maintenance basis pending an increased copper price. However, metallurgical testing to improve the recovery of non-sulphide copper will be completed.

During 1974, 412,264 lbs. of saleable copper were produced from the treatment of 25,000 tons of ore.

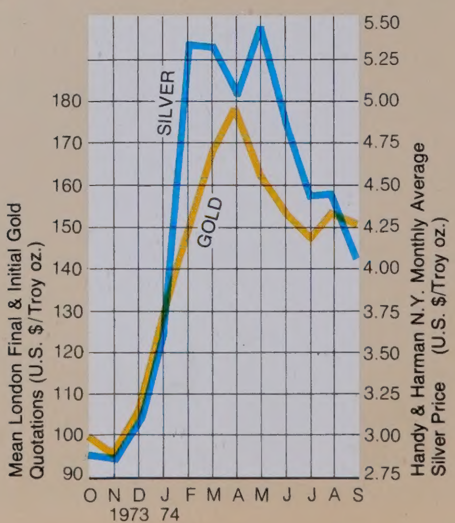
MARKETING

Our 1974 fiscal year began in a period of strong demand for copper with a corresponding high price, and ended in a period of surplus supply and low price. In between, we experienced record high prices with fluctuations of an unprecedented nature. The graphs included in this Annual Report illustrate these extremes of movement on the basis of the monthly averages for copper, gold and silver.

M.W. C.I.F. EUROPE COPPER PRICES MONTHLY AVERAGES



GOLD & SILVER PRICES



In 1974 the Company continued to sell both its Phoenix and Granisle production to certain Japanese customers; however, as the Phoenix contract expires on December 31, 1974, a new agreement for the sale of its concentrates was negotiated with The Anaconda Company. The term of the contract is related to current ore reserves at Phoenix. Granisle production will continue to be sold to the Japanese companies.

EXPLORATION & DEVELOPMENT

In 1974, Granby continued to broaden the horizons of its exploration and development activities. Expenditures increased significantly as the Company instigated the first phase of a two-phase program to identify and, if feasible, develop the coal deposits on the Granridge Project in South Western Alberta. A preliminary feasibility study was completed on the Huckleberry Copper Project in North Central British Columbia. Further study of the critical economic aspects of this project is continuing. Total exploration and development expenditures for the year amounted to $2,264,000 compared with $886,000 in 1973, and $482,000 in 1972.

The Company is continuing to emphasize the policy of acquiring discovered mineral deposits. The grave uncertainties which both the Canadian Federal and Provincial Governments have created in the areas of mineral law, resource taxation, and securities legislation have severely reduced the level of Canadian exploration activity by the junior mining companies. Since these companies have historically conducted a large portion of the high risk exploration and have provided Granby and other operating companies with investment opportunities in the later stages of exploration, the reduced activity by the junior mining companies has limited the opportunity to acquire additional projects in Canada.

Granby has met this challenge by identifying mineral commodities with strong demand potential in areas of the world where the geological, economic and social climate appear to be favourable to the discovery and development of mineral deposits. This

Field party at Huckleberry.

Unloading supplies for Yukon prospect.

Exposed coal seam — Granridge.

Locating adit for bulk sampling at Granridge.

strategy has shifted our exploration emphasis in the following manner. An exploration office has been established in Whitehorse, Yukon Territory, to serve as a base for property acquisition and exploration management of current projects. An exploration subsidiary, Granex (Pty) Limited, has been established in Johannesburg, South Africa, under the direction of Dr. E. Gerryts, a prominent South African geologist, and is actively seeking exploration properties and project development opportunities in South Africa. The Vancouver exploration staff has implemented a program to investigate exploration and acquisition opportunities in the United States. These activities, combined with current projects in Western Canada provide Granby with a base for long-term growth and greater insulation against varying business conditions.

The capital requirements for current and future projects could place a severe strain on Granby's financial resources in the near future. Consequently, we will continue to retain a large portion of cash flow for investments in new projects.

Granridge Project

In November 1973, Granby obtained a 2½ year option to purchase all of CanPac Minerals Limited's interests in 31,561 acres of coal leases north of Coleman, Alberta. The leases provide the exclusive right to mine coal under a renewable 21-year lease, subject to current mining legislation and royalty payments to the leaseholders.

As part of the option agreement, Granby acquired all of CanPac's previous exploration and coal quality data. After a thorough study of this information, Granby formulated a two-phase evaluation program for the option period. The first phase involved additional exploration and testing work. The field portion of this program was completed in October, 1974. Coal testing and preliminary engineering studies will be completed in the Spring of 1975. This will determine the scope of the Phase II program. It is anticipated that Phase II will entail the collection of additional field information and sufficient engineering and marketing data to determine the feasibility of placing the property into production.

Drilling at Granridge.

Remote logging of drill core hole, Granridge.

Prospecting north of Carmacks, Yukon Territory.

Huckleberry Project

The accelerated exploration program which Granby began in 1973 continued into the first half of 1974. Upon completion of the drilling program in December, 1973, a preliminary feasibility study was undertaken to determine the economic potential of the project and the areas which required further investigation. The drilling program had indicated the presence of a copper deposit approximately 2,500 feet long by 1,500 feet wide which contained a higher grade zone approximately 1,000 feet long by 500 feet wide. Estimates developed in the study indicated that 85 million tons of material containing 0.401% copper (0.30% cutoff) could be mined by conventional open pit mining methods at an overall stripping ratio of 1.0 to 1.11. Within this zone a higher grade section is indicated, containing 28 million tons at 0.501% copper (0.40% cutoff) and mineable at a stripping ratio of 1.0:1.28.

There can be little doubt that the Huckleberry property contains a substantial copper deposit. However, the timing of a development decision will depend upon the resolution of various economic uncertainties. The continuing fluctuations in government attitudes towards natural resource industries adds to the investment risks of a long-term project such as Huckleberry. Management hopes that these problems will be favourably resolved. Granby holds the property under option from Kennco Explorations (Western) Limited to continue work on the property. Under the terms of the agreement, Granby has until 1989 to complete its expenditure of $1.5 million, of which approximately $1.0 million has been spent or committed to date.

Other Exploration Projects

In addition to the two major projects and the property acquisition activities already described, Granby is investigating a number of other properties.

Activities in 1974 included:

— Surface exploration and diamond drilling of a lead-zinc-barite deposit in the Yukon Territory held under option from Empire Metals Corp. Ltd. Work in this region will continue in 1975.

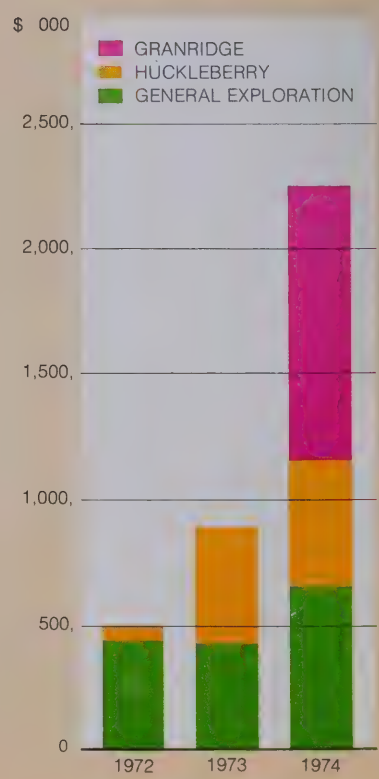
— Optioning the Oro Denoro property adjacent to Granby's Phoenix mine. The known deposit is being evaluated by means of a test mining program while the remainder of the property is being explored for additional potential ore. Any ore developed will be treated at the Phoenix concentrator, seven miles away.

— Optioning of a molybdenum property near Penticton, British Columbia, on which previous exploration by Vestor Mines Ltd., had indicated widespread low grade molybdenite mineralization. A drilling program has been initiated to determine the nature of these occurrences. The property is situated close to existing population centres and transportation systems thereby improving the chances of locating an economic deposit.

— Exploration drilling on two coal properties in West Central Alberta, including a joint venture program with Associated Porcupine Mines Limited.

— Performing modest amounts of work on the Lorraine option and Granby's other properties.

EXPLORATION EXPENDITURE



Granby is fully committed to properly discharging its responsibilities in the area of environmental protection and has made every effort to minimize the impact of its mining operations and exploration programs on the environment in which the Company's activities are located.

Where damage to land is unavoidable, every effort is made to reconstruct the land by grading and replanting. Reclamation regulations have been established, and completion is guaranteed by bonds placed with the Provincial Government. As a mining operation develops and goes into production, each stage must be cleared through the Provincial Government with all other potential resource users before permission to proceed is granted. Monitoring and inspection is carried out by the Company and government departments on a continuing basis.

Open pit mining has supplied a solution to the problems of increasing metal demand and decreasing labour availability. However, open pit mining requires removal of rock and other material to permit access to the ore. This material must be stored in permanent waste piles which for efficiency should be as close to the rim of the ultimate pit as possible. Any low-grade material below allowable treatment levels but of possible future value must be stockpiled at some point where it will be accessible for milling at a later date. The mill tailings must be impounded and the process waters trapped and re-cycled to prevent contamination of nearby lakes and streams.

Granisle

During the past year, Granisle Copper Limited has continued to satisfy the requirements of the Pollution Control Act. The water emission permit for the mining plant has been revised to suit the increased production rate and an air emission permit has now been granted.

Since the start of operations at the Granisle mine, tailings from the concentrator have been deposited in lagoons created by the construction of fill dams between Copper Island, where the mine and plant are situated, and Sterrett Island to the south. Process water discharged into the lagoon is recycled to the concentrator.

There is a major salmon spawning area on the Fulton River, less than nine miles from the Granisle plant. Granisle Copper Limited is actively involved with the Federal Fisheries Department and other groups in their research projects for the Babine water-shed.

The efforts of the management and staff of the mine in limiting changes to the lake environment were recognized in November when the "Water Protection Award" was presented to Granisle Copper Limited by the Pacific Northwest Pollution Control Association.

The reclamation of ground disturbed by the mining operation is a continuing consideration at Granisle. This year, the original construction camp site on Copper Island was covered with topsoil and planted with grass. Grass planting was extended on the inactive part of a tailings disposal area to create about 10 acres of well established ground cover. Nursery plots have been set up for the propagation of cuttings from local shrubs under controlled conditions to permit selection of best suited types for future planting programs.

Reclamation project on No. 1 tailings dam — Granisle.

Phoenix

At the Phoenix Mine, operations continued with minimum impact on the environment. Tailings from the concentrator continued to be deposited in the impoundment behind a rock fill dam. The capacity of this storage is adequate to hold the balance of the expected production from the mine. Process water carried with the tailings into the impoundment is recycled to the concentrator.

Experimental plantings continued at an abandoned tailings disposal area in an effort to identify locally found shrubs which will grow successfully on tailing sands.

PERSONNEL

The total number of employees at the 1974 year-end was 486 compared to 472 a year previously. This increase reflected a slight growth in the size of the Granisle work force and the addition of several key staff members at the Vancouver office in finance and exploration and development.

Granisle successfully negotiated a new eighteen month collective bargaining agreement with its hourly-rated employees covering the period July 1, 1974 to December 31, 1975. A new agreement was also concluded at Phoenix for the two year period September 1, 1974 to August 31, 1976. Both agreements provided for significant wage increases in keeping with established trends throughout British Columbia in all industrial sectors.

SHARE PURCHASES

Granby's holding of shares of Granisle Copper Limited has increased from 3,137,520 at the beginning of the year to 3,190,095 at the end of the year, or 95.8% of the outstanding shares of Granisle.

The ownership of Granby shares by Zapata Canada Limited was increased during the year from 66% to 92% as a result of a cash tender offer and subsequent open market purchases. Zapata Canada Limited, a subsidiary of Zapata Corporation, now holds 1,322,423 of the 1,444,371 Granby shares outstanding.

GENERAL

Effective October 1, 1974, Mr. J. B. Harrison resigned as a Director of Granby and Granisle in order to devote his full time and attention to the management of Zapata Exploration Company.

Messrs. W. H. Flynn and A. H. Hauser have advised the Board that they will not stand for re-election at the Company's forthcoming Annual Meeting.

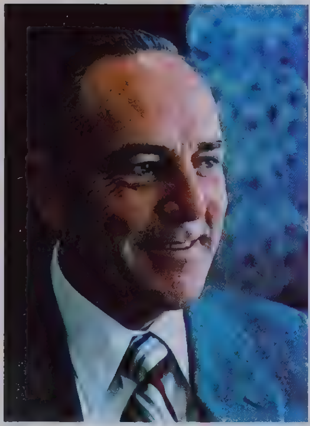
Granby's Annual General Meeting will be held at 10:30 a.m. on Thursday, January 30, 1975 in the Plaza West Room, Hyatt Regency Hotel, 655 Burrard Street, Vancouver, British Columbia.

The Directors wish to recognize the positive efforts put forth by the employees in all fields of the Company's activities during the year.

On behalf of the Board,

J. W. Jewitt,
President

Vancouver, British Columbia
December 16th, 1974.



J.H. Colton
Vice President, Administration & Finance

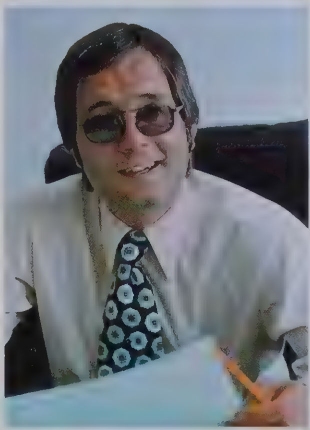
J.L. McCrea
Executive Assistant-Exploration & Development

R.P. Taylor
Executive Vice President

J.W. Jewitt, J.H. Colton, M.J. McGarry, Manager-Labour Relations

G.D. Mittelstadt
Manager-Granridge Project

N.S. Seldon
Manager-Marketing



F.A. Alexander
Executive Assistant-Operations

R.B. Richards
Treasurer

Five Year Financial Summary*

(stated in $000's)	Year ended September 30			9 months ended September 30	Year ended December 31
	1974	**1973**	**1972**	**1971**	**1970**
Net revenues	**$ 40,362**	$ 29,765	$ 15,722	$ 11,985	$ 19,966
Expenses					
Cost of production	**18,919**	14,131	9,152	7,021	9,025
Depreciation, depletion and amortization	**2,833**	2,500	1,526	1,885	2,503
Outside exploration	**1,165**	886	482	541	639
General and administrative	**1,272**	910	802	618	729
	24,189	18,427	11,962	10,065	12,896
Operating income	**16,173**	11,338	3,760	1,920	7,070
Investment and other income (expense)	**710**	(221)	685	489	625
	16,883	11,117	4,445	2,409	7,695
Income taxes	**8,235**	4,980	1,914	1,521	4,735
Minority interest	**478**	622	660	391	1,464
Income before extraordinary items	**8,170**	5,515	1,871	497	1,496
Extraordinary items	**(500)**	—	—	83	505
Net income	**$ 7,670**	$ 5,515	$ 1,871	$ 580	$ 2,001
Shares outstanding	**1,444,371**	1,444,371	1,444,371	1,444,371	1,444,371
Net income per share					
Before extraordinary items	**$ 5.66**	$ 3.82	$ 1.30	$ .34	$ 1.04
Extraordinary items	**(.35)**	—	—	.06	.35
After extraordinary items	**$ 5.31**	$ 3.82	$ 1.30	$ .40	$ 1.39
Cash dividends per share ($U.S.)	**$ .60**	$ .60	$ .60	$ 1.20	$ 1.60

*Restated for comparative purposes

To the Shareholders,
The Granby Mining Company Limited:

We have examined the consolidated balance sheet of The Granby Mining Company Limited (a British Columbia company and subsidiary of Zapata Corporation) and Subsidiaries as of September 30, 1974 and 1973, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of The Granby Mining Company Limited and Subsidiaries as of September 30, 1974 and 1973, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Pursuant to Section 212 of the British Columbia Companies Act, we further report that in our opinion, due provision has been made for minority interests.

ARTHUR ANDERSEN & CO.
Chartered Accountants.

Vancouver, British Columbia
October 25, 1974 (except with respect to the matter discussed in Note 6, which is dated November 18, 1974).

CONSOLIDATED BALANCE SHEET

Assets

	September 30 1974	1973 (Restated per Note 2)
Current assets (Note 1):		
Cash and short-term deposits	**$12,215,885**	$ 5,342,864
Accounts receivable (Note 1)	**6,026,055**	2,939,013
Metals in concentrates, at estimated realizable value (Note 1)	**4,276,364**	5,081,263
Materials and supplies, at the lower of average cost or replacement cost	**2,987,489**	2,012,905
Marketable securities, at market (partially pledged) (Note 1)	**728,440**	—
Prepaid expenses	**318,541**	129,753
Total current assets	**$26,552,774**	$15,505,798
Refundable deposits and sundry assets, at cost	**$ 259,885**	$ 254,252
Long-term investments, at September 30, 1971 market value (Note 1)	**$ —**	$ 1,228,440
Property, plant and equipment, at cost (Note 1)	**$43,519,980**	$39,871,202
Less accumulated depreciation and depletion	**15,171,154**	12,328,185
Net property, plant and equipment	**$28,348,826**	$27,543,017
Deferred charges:		
Exploration costs (Granridge) (Note 1)	**$ 1,099,250**	$ —
Retirement plan contribution, at cost less amortization	**188,748**	211,632
	$ 1,287,998	$ 211,632
	$56,449,483	$44,743,139

See accompanying notes to consolidated financial statements.

Liabilities and shareholders' equity

	September 30 1974	1973 (Restated per Note 2)
Current liabilities:		
Bank loan, secured	**$ 32,000**	$ —
Accounts payable and accruals	**3,050,333**	1,858,390
Income taxes payable (Note 2)	**7,543,563**	5,291,927
Total current liabilities	**$10,625,896**	$ 7,150,317
Long-term debt:		
8% note payable to parent company (Note 1)	**$ 316,000**	$ —
Deferred income taxes (Note 2)	**$ 5,460,397**	$ 4,424,397
Minority interest in subsidiary	**$ 1,328,496**	$ 1,268,875
Shareholders' equity:		
Capital stock (Note 3):		
Authorized, 6,000,000 shares, par value $1.66-⅔ per share		
Issued and outstanding, 1,444,371 shares	**$ 2,407,285**	$ 2,407,285
Contributed surplus	**1,241,502**	1,241,502
Retained earnings, per accompanying statement	**35,069,907**	28,250,763
Total shareholders' equity	**$38,718,694**	$31,899,550
	$56,449,483	$44,743,139

Contingent liabilities and commitments (Note 5)

On behalf of the Board:

J. H. COLTON, Director

R. M. SUTHERLAND, Director

See accompanying notes to consolidated financial statements.

Consolidated statement of income

	Year Ended September 30 1974	1973 (Restated per Note 2)
Net revenues (Note 1)	**$40,362,305**	$29,765,169
Expenses:		
Cost of production	**$18,918,948**	$14,131,196
Depreciation, depletion and amortization (Note 1)	**2,832,990**	2,499,551
Outside exploration	**1,164,745**	886,485
General and administrative	**1,272,407**	910,247
	$24,189,090	$18,427,479
Operating income	**$16,173,215**	$11,337,690
Investment and other income (expense)	**710,112**	(220,801)
Income before provision for income taxes, minority interest in net income of subsidiary and extraordinary item	**$16,883,327**	$11,116,889
Provision for income taxes (Note 2):		
Current	**$ 7,199,000**	$ 2,470,000
Deferred	**1,036,000**	2,510,000
	$ 8,235,000	$ 4,980,000
Income before minority interest in net income of subsidiary and extraordinary item	**$ 8,648,327**	$ 6,136,889
Minority interest in net income of subsidiary	**477,849**	622,166
Income before extraordinary item	**$ 8,170,478**	$ 5,514,723
Extraordinary item:		
Write-down of marketable securities (Note 1)	**500,000**	—
Net income	**$ 7,670,478**	$ 5,514,723
Net income per share:		
Before extraordinary item	**$ 5.66**	$ 3.82
After extraordinary item	**$ 5.31**	$ 3.82
Cash dividends per share in U.S. dollars	**$ .60**	$ .60
Number of shares outstanding	**1,444,371**	1,444,371

See accompanying notes to consolidated financial statements.

Consolidated statement of retained earnings

	Year Ended September 30	
	1974	1973 (Restated per Note 2)
Balance at beginning of year, as previously reported	**$31,555,453**	$26,712,525
Less—Reclassification of federal income tax reassessment (Note 2)	**2,355,678**	2,355,678
Adjustment relating to provincial mining tax reassessment (Note 2)	**949,012**	753,012
As restated	**$28,250,763**	$23,603,835
Add net income	**7,670,478**	5,514,723
	$35,921,241	$29,118,558
Deduct dividends paid	**851,334**	867,795
Balance at end of year	**$35,069,907**	$28,250,763

Consolidated statement of changes in financial position

	Year Ended September 30	
	1974	1973 (Restated per Note 2)
Funds provided by:		
Operations:		
Income before extraordinary item	**$ 8,170,478**	$ 5,514,723
Depreciation, depletion and amortization	**2,832,990**	2,499,551
Deferred income taxes	**1,036,000**	2,510,000
Minority interest in net income of subsidiary	**477,849**	622,166
Other	**133,530**	373,994
Funds provided by operations	**$12,650,847**	$11,520,434
Reclassification of long-term investments to marketable securities	**728,440**	—
Deposits refunded (paid)	**(5,633)**	155,932
8% note payable to parent company	**316,000**	—
Total funds provided	**$13,689,654**	$11,676,366
Funds applied to:		
Net additions to property, plant and equipment	**$ 3,112,812**	$ 2,817,391
Exploration costs deferred	**1,099,250**	—
Dividends paid	**851,334**	867,795
Investment in subsidiary	**659,537**	9,020,686
Acquisition cost of subsidiary, net of its working capital	**346,319**	—
Dividends paid by subsidiary to minority shareholders	**49,005**	159,713
Reduction of prior years' deferred income tax	**—**	279,603
Adjustments relating to mining tax reassessment, allocated to —		
Retained earnings	**—**	753,012
Minority interest	**—**	33,000
Total funds applied	**$ 6,118,257**	$13,931,200
Increase (decrease) in working capital	**$ 7,571,397**	$ (2,254,834)
Working capital at beginning of year	**8,355,481**	10,610,315
Working capital at end of year	**$15,926,878**	$ 8,355,481

See accompanying notes to consolidated financial statements.

Notes to the consolidated financial statements September 30, 1974 and 1973

1. Summary of accounting policies:

Principles of consolidation

The accompanying consolidated financial statements include the accounts of The Granby Mining Company Limited (the Company) and Subsidiaries, Granisle Copper Limited (Granisle), Zapata Mining (Pty.) Ltd., and certain inactive companies, after elimination of inter-company balances and transactions.

During 1974, the Company increased its share ownership of Granisle from 94.5% to 95.8%. In addition, the Company also acquired all the outstanding shares of Zapata Mining (Pty.) Ltd. from Zapata Corporation for $416,000 (net book value at September 30, 1973) by payment of $100,000 and the assumption of a note payable for $316,000, which is repayable out of the subsidiary's future annual net cash flow in excess of $100,000.

The financial statements of a subsidiary, Jedway Iron Ore Limited, have not been consolidated as its mining operations have ceased and the investment therein is considered to have no value.

Currency conversion

Current assets denominated in United States currency have been converted into Canadian currency at the rate of exchange prevailing at the respective balance sheet dates.

Marketable securities

The investments in marketable securities have been reclassified from long-term investments to marketable securities since it is the Company's intention to eventually sell these securities. Accordingly, the marketable securities have been written down to market as of September 30, 1974. The write-down is considered a capital loss for federal income tax purposes. Since a capital loss can only be offset against capital gains, which the Company does not have, no reduction has therefore been recorded for federal income taxes.

Property, plant and equipment

Particulars of the cost of property, plant and equipment are as follows:

	September 30	
	1974	1973
Mineral claims	**$ 8,533,738**	$ 8,426,909
Land	**131,501**	80,935
Mine buildings and equipment	**24,635,209**	23,373,683
Mobile and other equipment	**10,219,532**	7,989,675
	$43,519,980	$39,871,202

Mineral claims include the excess cost of the Company's investment in Granisle over its net book value at time of acquisition of $8,468,639 ($8,214,003 in 1973). The federal income tax reassessment of $2,320,000, previously charged to mineral claims, has been reclassified as a prior period adjustment on the consolidated statement of retained earnings (see Note 2). Depletion of mineral claims is based on the proportion of copper produced to the estimated copper content of ore reserves of the mine; accumulated depletion as of September 30, 1974 is $1,553,945 ($1,075,467 at September 30, 1973).

Following the establishment of increased Granisle ore reserves in 1972, depreciation of the Granisle mine buildings and equipment is provided on a straight-line basis over the extended life of the mine, namely nineteen years from September 30, 1971.

Following the establishment of increased Phoenix (Granby) ore reserves, the September 30, 1971 net book value and the cost of subsequent additions of Phoenix mine buildings and equipment is being depreciated on a straight-line basis over approximately six years from September 30, 1971.

Mobile equipment (except drills and shovels) is being depreciated at 30% per annum on a diminishing balance basis, and drills and shovels on a straight-line basis of 10% per annum for Granisle. For Granby, all mobile equipment is being depreciated at 30% per annum on a diminishing balance basis.

Deferred charges

Outside exploration costs are deferred if the property under investigation, in the judgement of the Company's management, can be developed into a future revenue-producing mine; otherwise, such costs are written-off in the year incurred. Under the terms of an agreement between the Company and Granisle, all outside exploration costs on projects originating after January 1, 1971 are shared on a two-third, one-third basis.

During the year ended September 30, 1974, the Company incurred exploration expenditures totalling $1,099,250 on the "Granridge" property, a coking coal deposit located in Southwestern Alberta, Canada. The rights to this property were acquired under an option agreement with CanPac Minerals Limited (CanPac), under the terms of which the Company is committed to incur exploration expenditures, excluding option payments, of $500,000 on the property by October 1, 1975; expenditures in excess of this amount were in fact incurred by September 30, 1974. In addition, should the Company decide to maintain its option, CanPac is entitled to a further payment of $350,000 by July 1, 1975 and upon the option being exercised by the Company, which must occur by July 1, 1976, CanPac is entitled to a further $2,000,000 and shall assign all its right, title and interest in

the property to the Company in return for a production royalty. If the property is not in production by 1979, Can-Pac will be entitled to an annual payment of $200,000 until the property is placed in production.

Net revenues

All Granisle concentrate production is sold under a contract which extends to March 31, 1977, the final sales proceeds being based on the average price quoted at the London Metals Exchange during the two months following receipt of the shipment in Japan. The Company has a similar contract which expires December 31, 1974; thereafter, all of Granby's production will be sold to a customer in the United States under a long-term contract.

Production represented by metals in concentrates and shipments in transit at year-end has been recorded at the September average quoted price for metals, which is estimated to be the final settlement price.

2. Income taxes:

Federal income taxes paid, under dispute

By Notice of Reassessment dated January 21, 1974, the Minister of National Revenue imposed tax on a portion of certain dividends received by the Company from Granisle during the 1969, 1970 and 1971 taxation years. The Company, as required, has paid the amount reassessed of $2,355,678, including interest, and has filed a Notice of Objection with the Department of National Revenue. (As of September 30, 1973, the Company had provided $2,320,000 for this reassessment.)

Although liability for the tax is not admitted, the payment has been reflected as a prior period adjustment in the consolidated statement of retained earnings, since, if the appeal is lost, the additional tax will reduce the Company's 1969, 1970 and 1971 net income as previously reported.

Provincial mining taxes paid, under dispute

In April, 1974, the Commissioner of Income Tax for British Columbia reassessed Granisle for mining tax payable for the period December 1, 1969 to September 30, 1971. The reassessment is based on an interpretation of certain sections of the Mining Tax Act by the Commissioner, which differs substantially from the interpretation placed on the same sections by the Commissioner during the aforementioned period. This claim, which, including statutory interest of $149,820, amounts to $869,012, has been objected to and the matter will be heard in the Supreme Court of British Columbia on April 11, 1975. If the case were lost, additional mining taxes of $708,000 would become due for the three year period ending September 30, 1974.

The Company has decided to reflect the payment as a prior period adjustment of $753,012 on the consolidated statement of retained earnings; the difference of $116,000 being a draw-down of deferred income taxes as of September 30, 1971 and the applicable minority interest. Also, the net income for the year ended September 30, 1973 has been decreased by $196,000 and an appropriate provision has been made in 1974 for these additional mining taxes due, if the case were lost.

The additional mining tax provisions do not reduce federal income taxes otherwise payable.

Deferred income taxes

The depreciation and amortization claimed for income tax purposes exceeds the amount recorded in the accounts, and accordingly a provision has been made for the deferred income taxes payable at a future date.

3. Capital stock:

Under the Company's "Restricted Stock Option Plan" dated January 13, 1960, 138,000 shares of the Company's stock were reserved for the granting of options to key employees, the purchase price per share being 10% above the market value at the date of the grant. The options granted are for a term of ten years from the date of the grant, and there are certain limitations on the number of shares that can be acquired in the first five years. An option on 2,000 shares at $38.23 U.S. per share was outstanding at September 30, 1974 and 1973. No options were granted in either 1974 or 1973. Unallocated shares under the plan totalled 54,400 shares at September 30, 1974 and 1973. The potential dilutive effect of the reserved and granted options, if exercised, would be to reduce net income per share by $.17 as of September 30, 1974 and by $.10 as of September 30, 1973.

4. Remuneration of directors and senior officers:

Remuneration of directors and senior officers (as defined in the British Columbia Companies Act) for the year ended September 30, 1974 amounted to $298,315 ($273,577 in 1973).

5. Contingent liabilities and commitments:

(a) On September 3, 1971, Silver Standard Mines Ltd. (N.P.L.) (Silver Standard) commenced an action in the Supreme Court of British Columbia against Jedway Iron Ore Limited (Jedway) and the Company claiming interest on $670,454 at 6% per annum (Action One). The interest presently claimed is $211,462 for the period from April 1, 1968 to June 30, 1973. A further claim is for compound and not merely simple interest. On February 13, 1973, Silver Standard, in another action, claimed against Jedway and the Company $670,454 on the ground of repudiation by the defendants of the Agreement between Silver Standard and the Company, dated January 20, 1961. If no repudiation were found, Silver Standard claimed, in the alternative, damages for breach of the Agreement (Action

Two). On the recommendation of Counsel, Jedway and the Company defended these actions on the grounds that:

(i) with respect to Action One, Jedway's obligation terminated as of the date upon which it ceased its mining operations;

(ii) with respect to Action Two, the conduct of Jedway and the Company did not constitute repudiation or a breach of the Agreement, and Silver Standard had sustained no damage.

Actions One and Two were consolidated and the trial of the consolidated action commenced on October 29, 1973. On May 13, 1974, the Supreme Court of British Columbia rendered its decision, which was as follows:

(i) Silver Standard obtained judgement for the interest from April 1, 1968 up to the date the mineral claims involved were retendered to Silver Standard; after which liability for interest would be ended. The mineral claims were tendered to Silver Standard on May 14, 1974, but not accepted by them. The total amount of interest involved is $246,213;

(ii) Silver Standard's claim for principal, i.e. $670,454 was dismissed entirely.

Silver Standard, however, has appealed this decision to the British Columbia Court of Appeal and to date the matter has not been heard. If Silver Standard is successful in its appeal with respect to both Actions, then Jedway, in addition to being liable to make payment of the aforementioned sum of $246,213 will be liable to pay to Silver Standard either the principal sum of $670,454 or interest thereon at 6% until such time as the principal is paid. If Jedway defaults, an event which would likely occur, the Company as guarantor, would assume that payment and liability.

Jedway and the Company intend to cross-appeal the decision to the British Columbia Court of Appeal.

In the opinion of in-house counsel, there are legal grounds for assuming that no material liability will arise out of this action; accordingly, no provision has been made in the accounts for either the $246,213 or the $670,454, or interest thereon, or costs.

(b) The Company and Granisle have continued their policy of forward-selling a portion of their metal production.

(c) Granisle has guaranteed 50% of a $650,000 mortgage extended by a bank to Granisle Village Inn Ltd., a non-affiliate, in connection with a hotel built and operated at the Granisle townsite. Further, Granisle is contingently liable to a maximum of approximately $1,500,000 in connection with the mortgaging of certain homes occupied by employees in the town of Granisle. Granisle has also guaranteed payment of approximately $106,000 borrowed by the Village of Granisle from a bank for the provision of community facilities, and is committed to provide $630,000 of interim financing for the construction of an apartment building.

Purchase commitments totalling approximately $1,000,000 have been made in connection with the purchase of various mining equipment and facilities.

At September 30, 1974, no events had occurred giving rise to actual liabilities under these contingencies and commitments.

(d) A civil action, arising from (a) the purchase of stock of The Granby Mining Company Limited (Granby) by Zapata Canada Limited (Zapata Canada), a wholly-owned subsidiary of Zapata Corporation, and (b) a proposed amalgamation between Granby, Granisle Copper Limited (Granisle) and Zapata Canada (which proposal was abandoned in December, 1972) was filed by certain minority shareholders of the Company and Granisle naming as defendants Granby, Granisle and certain directors and/or officers of the Company and Granisle and alleging among other things violations of the Securities Exchange Act of 1934 and further seeking equitable relief and compensatory and punitive damages. Baker & Botts, as counsel for Granby and Granisle, after consultation with Canadian counsel on matters of Canadian law, have expressed their opinion that this action should not result in any material loss or liability on the part of either company.

No provision has been made in the accounts for any amounts which may become payable as a result of the said actions.

6. Event subsequent to the date of the auditors' report:

On November 18, 1974, the Federal Government of Canada announced its proposed budget, which is likely to significantly increase the Company's total future income taxes. In addition, the budget is retroactive to May 6, 1974; accordingly, the Company has increased the provision for income taxes as of September 30, 1974 to provide for the retroactive effect. The more significant changes in the budget are:

Royalty charges and taxes levied by provincial governments are no longer deductible for federal tax purposes.

Development expenditures can be written-off at a rate of 30% a year; they were previously fully deductible in the year incurred.

Depletion will no longer be allowed at the previous rate of 33⅓% of production profits, but will be limited to the "earned depletion base", equal to 33⅓% of total exploration and development and certain capital expenditures incurred after November 7, 1969; depletion would then be allowed equal to 25% of the annual production profits up to the total of the "earned depletion base."

The Granby Mining Company Limited

■ OPERATING MINES

● METALS PROJECTS

▲ COAL PROJECTS

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